

Message Text

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INFO AMEMBASSY BEIRUT

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C O N F I D E N T I A L TRIPOLI 1270

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, LY

SUBJ: OIL NATIONALIZATIONS: TALKS ON THE "TRUCE"

REF: STATE 190937

SUMMARY: THIS REPORT FOLLOWS UP ON THE SITUATION DESCRIBED REFTEL REGARDING THE "UNANNOUNCED TRUCE" BETWEEN THE LARG AND THE MAJOR OIL COMPANIES. THE COMPANIES' LATEST OFFER HAS BEEN REJECTED, BUT TALKS ARE CONTINUING. THERE IS NO AGREEMENT ON BASIC PRINCIPLES, BUT NEITHER IS THERE AN INDICATION THAT A COMPLETE IMPASSE IS IMMINENT.

1. WE UNDERSTAND LATEST COMPANY PROPOSALS WERE FOR COMPANIES TO LIFT 85 PERCENT OF THEIR CRUDE AS BEFORE, TO SEEL 10 PERCENT ON BEHALF OF THE LARG, AND TO "GIVE" THE LARG THE REMAINING 5 PERCENT. THESE PROPOSALS WERE
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REJECTED BY OIL MINISTER MABRUK AND U/S MUNTASSER IN

TALKS OVER WEEKEND WITH COMPANIES' LOCAL MANAGERS.
HOWEVER, THESE LARG OFFICIALS MADE COUNTER PROPOSALS, THE
COMMON ELEMENTS OF WHICH WERE:

A) COMPANIES MUST NOT "CHASE" OIL LIFTED BY NATIONAL
OIL COMPANY (NOC) FROM NATIONALIZED FIELDS.

B) "TRUCE" AND SUBSEQUENT NEGOTIATIONS MUST BE BASED
UPON COMPANIES ACCEPTING THE SEPTEMBER 1 NATIONALIZATION
DECREE AND THE PRINCIPLE THAT ANY DEAL FINALLY WORKED OUT
MUST BE NO LESS FAVORABLE TO THE GOVERNMENT THAN THE OASIS
PARTICIPATION AGREEMENT.

2. LOCAL COMPANY MANAGERS GENERALLY AGREE THAT COMPANIES
HAVE FOUR OPTIONS FOR ACTION AT THIS TIME:

A) MAKE NO FURTHER OFFERS AND CONTINUE OPERATIONS,
THEIR PROTESTS AGAINST NOC LIFTINGS OF CRUDE FROM THEIR
FIELDS, AND THE "CHASING" NOC LIFTED OIL IN THE COURTS.

B) SAMENAS A) EXCEPT THAT COMPANIES WOULD QUIETLY
DROP PURSUIT OF NOC LIFTED OIL SO LONG AS IT DOES NOT
EXCEED 15 PERCENT. THAT FACT WOULD, HOWEVER, BE LEAKED
TO A TRADE JOURNAL AND THUS BE CONVEYED TO THE LARG AS
PART OF A TACIT UNDERSTANDING.

C) SAME AS B) EXCEPT THAT COMPANIES WOULD FORMALLY
INFORM LARG OF WHAT THEIR DECISION IS.

D) PUBLICLY ANNOUNCE A TRUCE ON THE PURSUIT OF ANY
HOT OIL (UP TO 51 PERCENT) PENDING THE OUTCOME OF NEGOTIATIONS (AS THE CONSORTIUM DID WITH IRAQ).

3. MANAGERS HERE DIVIDED ON WHICH OF THESE FOUR OPTIONS
IS BEST COURSE. EXXON AND AMOSEAS (TEXACO-CHEVRON)
HAVE OPTIONS, I.E. CONTINUED "CHASING", IS THE "ONLY

WAY". THEIR ARGUMENTS BASED ON LEGAL PROBLEMS SHOULD
THEY APPEAR TO AGREE TO LARG ACTIONS BY NOT "CHASING"
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OIL. THEY ALSO REASON THAT NOC'S MARKET IS NOW RESTRICTED
BY POTENTIAL PURCHASERS' FEAR OF LEGAL BATTLES WITH MAJORS
OVER "HOT OIL". IF MAJORS CLEANSE NOC LIFTINGS BY NOT
TAKING COURT ACTION AGAINST PURCHASERS, NOC OIL BECOMES VEY
ATTRACTIVE AND MUCH MORE MARKETABLE. MOBIL AND SHELL MANAGERS
FEEL OPTIONS B) AND C) OFFER SOME CHANCE OF SUCCESS FOR EVENTUAL
LARG AGREEMENT. MOBIL MANAGER'S JUDGMENT INFLUENCED BY HIS
LAWYER, WHO BELIEVES IT NOT NECESSARY TO "CHASE" EVERY

TANKER OF NOC-LIFTED CRUDE TO ESTABLISH NON-ACCEPTANCE OF LARG ACTIONS. THEIR POSITION MAY ALSO REFLECT MOBIL'S "SHORT" POSITION IN CRUDE SUPPLIES. THE SHELL MANAGER REPORTEDLY IS GENERALLY MORE "DOVISH" THAN HIS HEADQUARTERS' MANAGEMENT. HIS ATTITUDE, THEREFORE, MAY NOT BE DECISIVE.

4. WHICHEVER COURSE MAJORS TAKE, AN IMMEDIATE CONFRONTATION SEEMS TO HAVE BEEN AVOIDED. IT MAY BE POSSIBLE TO PUT OFF THE FINAL CRUNCH UNTIL NOVEMBER 30, WHEN SEPTEMBER TAXES ARE DUE. AT THAT TIME BOTH SIDES WILL BE FORCED TO ACCOUNT FOR ALL THE OIL LIFTED FROM THE FIELDS. WILL IT BE MAJORS' OIL SUBJECT TO TAX, OR THE LARG'S? THE ANSWER TO THAT QUESTION WILL PROBABLY BE INFLUENCED BY THE STATE OF TALKS AT VIENNA AND IN THE GULF. NEITHER SIDE HERE HAS AN INTEREST IN FORCING A COMPLETE CONFRONTATION UNTIL THE SITUATION IN THE GULF IN PARTICULAR IS CLEARER. THE LOCAL MANAGERS BELIEVE THAT THE ONLY THING THAT WILL MOVE THE LARG TO FORCE A CONFRONTATION BEFORE NOVEMBER 30 WOULD BE THE MAJORS' POSSIBLE SUCCESSES IN THE COURTS SUFFICIENT TO SCARE OFF ALMOST ALL NOC CUSTOMERS. THEY DO NOT REALLY BELIEVE THAT WILL OCCUR.

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